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7  
8 **BEFORE THE**  
**CALIFORNIA BOARD OF ACCOUNTANCY**  
9 **DEPARTMENT OF CONSUMER AFFAIRS**  
**STATE OF CALIFORNIA**

10 In the Matter of the Accusation Against:

Case No. AC-2010-2

11 **SUBRAMANIAN EASWARA RAMANAN**  
12 3027 Briggs Court  
13 Pleasanton, California 94588

**FIRST AMENDED ACCUSATION**

14 Certified Public Accountant No. CPA 83591

15 and

16 **NEEKA ACCOUNTANCY**  
**CORPORATION**

17 1 North Main Street, Suite 4  
18 Milpitas, California 95035

19 Certified Public Accountancy Corporation  
20 No. COR 5384

21 Respondents.

22  
23 Complainant alleges:

24 **PARTIES**

25 1. Patti Bowers (Complainant) brings this Accusation solely in her official capacity as  
26 the Executive Officer of the California Board of Accountancy, Department of Consumer Affairs.  
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2. On or about June 19, 2002, the California Board of Accountancy issued Certified Public Accountant Certificate Number CPA 83591 to Subramanian Easwara Ramanan (Respondent Ramanan). The Certified Public Accountant Certificate was in full force and effect at all times relevant to the charges brought herein and will expire on November 1, 2011, unless renewed.

3. On or about March 22, 2004, the California Board of Accountancy issued Certified Public Accountancy Corporation Certificate Number COR 5384 to Neeka Accountancy Corporation (Respondent Corporation). The Certified Public Accountancy Corporation Certificate is pending renewal.

## JURISDICTION

4. This Accusation is brought before the California Board of Accountancy (Board), Department of Consumer Affairs, under the authority of the following laws. All section references are to the Business and Professions Code (Code) unless otherwise indicated.

## STATUTORY AND REGULATORY PROVISIONS

5. Section 5050.1(a) of the Code states:

“Any person that engages in any act that is the practice of public accountancy in this state consents to the personal, subject matter, and disciplinary jurisdiction of the board. This subdivision is declarative of existing law.”

6. Section 5035 of the Code states:

“Person” includes individual, partnership, firm, association, limited liability company, or corporation, unless otherwise provided.”

7. Section 5156 of the Code states:

“An accountancy corporation shall not do or fail to do any act the doing of which or the failure to do which would constitute unprofessional conduct under any statute, rule or regulation now or hereafter in effect. In the conduct of its practice, it shall observe and be bound by such statutes, rules and regulations to the same extent as a person holding a permit under Section 5070

1 of this code. The board shall have the same powers of suspension, revocation and discipline  
2 against an accountancy corporation as are now or hereafter authorized by Section 5100 of this  
3 code, or by any other similar statute against individual licensees, provided, however, that  
4 proceedings against an accountancy corporation shall be conducted in accordance with Chapter 5  
5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code, and  
6 the board shall have all the powers granted therein.”

7 8. Section 5051 of the Code states, in pertinent part:

8 “Except as provided in Sections 5052 and 5053, a person shall be deemed to be engaged in  
9 the practice of public accountancy within the meaning and intent of [Chapter 1 of Division 3  
10 (commencing with Section 5000)] if he or she does any of the following:

11 “(a) Holds himself or herself out to the public in any manner as one skilled in the  
12 knowledge, science, and practice of accounting, and as qualified and ready to render professional  
13 service therein as a public accountant for compensation.

14 “(b) Maintains an office for the transaction of business as a public accountant.

15 “(c) Offers to prospective clients to perform for compensation, or who does perform on  
16 behalf of clients for compensation, professional services that involve or require an audit,  
17 examination, verification, investigation, certification, presentation, or review of financial  
18 transactions and accounting records.

19 “(d) Prepares or certifies for clients reports on audits or examinations of books or records of  
20 account, balance sheets, and other financial, accounting and related schedules, exhibits,  
21 statements, or reports that are to be used for publication, for the purpose of obtaining credit, for  
22 filing with a court of law or with any governmental agency, or for any other purpose.

23 “(e) In general or as an incident to that work, renders professional services to clients for  
24 compensation in any or all matters relating to accounting procedure and to the recording,  
25 presentation, or certification of financial information or data.

26 “(f) Keeps books, makes trial balances, or prepares statements, makes audits, or prepares  
27 reports, all as a part of bookkeeping operations for clients.

28 “(g) Prepares or signs, as the tax preparer, tax returns for clients.

1       “(h) Prepares personal financial or investment plans or provides to clients products or  
2 services of others in implementation of personal financial or investment plans.

3       “(i) Provides management consulting services to clients. . . .”

4       9.       Section 5100 of the Code states, in pertinent part:

5       “After notice and hearing the board may revoke, suspend, or refuse to renew any permit or  
6 certificate granted under Article 4 (commencing with Section 5070) and Article 5 (commencing  
7 with Section 5080), or may censure the holder of that permit or certificate for unprofessional  
8 conduct that includes, but is not limited to, one or any combination of the following causes:

9       . . . .

10       “(c) Dishonesty, fraud, gross negligence, or repeated negligent acts committed in the same  
11 or different engagements, for the same or different clients, or any combination of engagements or  
12 clients, each resulting in a violation of applicable professional standards that indicate a lack of  
13 competency in the practice of public accountancy or in the performance of the bookkeeping  
14 operations described in Section 5052.

15       . . . .

16       “(g) Willful violation of this chapter or any rule or regulation promulgated by the board  
17 under the authority granted under this chapter. . . .”

18       10.     Section 5060 of the Code states, in pertinent part:

19       “(a) No person or firm may practice public accountancy under any name which is false or  
20 misleading.

21       “(b) No person or firm may practice public accountancy under any name other than the  
22 name under which the person or firm holds a valid permit to practice issued by the board.

23       “(c) Notwithstanding subdivision (b), a sole proprietor may practice under a name other  
24 than the name set forth on his or her permit to practice, provided the name is registered by the  
25 board, is in good standing, and complies with the requirements of subdivision (a). . . .”

26       11.     Section 5062 of the Code states: “A licensee shall issue a report which conforms to  
27 professional standards upon completion of a compilation, review or audit of financial statements.”

28       12.     Section 5097 of the Code states, in pertinent part:

1       “(a) Audit documentation shall be a licensee’s records of the procedures applied, the tests  
2 performed, the information obtained, and the pertinent conclusions reached in an audit  
3 engagement. Audit documentation shall include, but is not limited to, programs, analyses,  
4 memoranda, letters of confirmation and representation, copies or abstracts of company  
5 documents, and schedules or commentaries prepared or obtained by the licensee.

6       “(b) Audit documentation shall contain sufficient documentation to enable a reviewer with  
7 relevant knowledge and experience, having no previous connection with the audit engagement, to  
8 understand the nature, timing, extent, and results of the auditing or other procedures performed,  
9 evidence obtained, and conclusions reached, and to determine the identity of the persons who  
10 performed and reviewed the work.

11       “(c) Failure of the audit documentation to document the procedures applied, tests  
12 performed, evidence obtained, and relevant conclusions reached in an engagement shall raise a  
13 presumption that the procedures were not applied, tests were not performed, information was not  
14 obtained, and relevant conclusions were not reached. This presumption shall be a rebuttable  
15 presumption affecting the burden of proof relative to those portions of the audit that are not  
16 documented as required in subdivision (b). The burden may be met by a preponderance of the  
17 evidence. . . .”

18       13.       Title 16, California Code of Regulations, section 58 (Board Rule 58) provides that  
19 “licensees engaged in the practice of public accountancy shall comply with all applicable  
20 professional standards, including but not limited to generally accepted accounting principles and  
21 generally accepted auditing standards.”

22       14.       Title 16, California Code of Regulations, section 65 (Board Rule 65) provides that  
23 “a licensee shall be independent in the performance of services in accordance with professional  
24 standards.”

25       15.       Title 16, California Code of Regulations, section 68.1 (Board Rule 68.1) states:

26       “(a) Working papers are the licensee’s records of the procedures applied, the tests  
27 performed, the information obtained and the pertinent conclusions reached in an audit, review,  
28 compilation, tax, special report or other engagement. They include, but are not limited to, audit

1 of other programs, analyses, memoranda, letters of confirmation and representations, abstracts of  
2 company documents and schedules or commentaries prepared or obtained by the licensee. The  
3 form of working papers may be handwriting, typewriting, printing, photocopying, photographing,  
4 computer, data, or any other letters, words, pictures, sounds, or symbols or combinations thereof.

5 “(b) Licensees shall adopt reasonable procedures for the safe custody of working papers  
6 and shall retain working papers for a period sufficient to meet the needs of the licensee’s practice  
7 and to satisfy applicable professional standards and pertinent legal requirements for record  
8 retention.

9 “(c) Licensees shall retain working papers during the pendency of any Board investigation,  
10 disciplinary action, or other legal action involving the licensee. Licensees shall not dispose of  
11 such working papers until notified in writing by the Board of the closure of the investigation or  
12 until final disposition of the legal action or proceeding if no Board investigation is pending.”

13 16. Title 16, California Code of Regulations, section 68.2 (Board Rule 68.2) states:

14 “(a) To provide for the identification of audit documentation, audit documentation shall  
15 include an index or guide to the audit documentation which identifies the components of the audit  
16 documentation.

17 “(b) In addition to the requirements of Business and Professions Code section 5097(b),  
18 audit documentation shall provide the date the document or working paper was completed by the  
19 preparer(s) and any reviewer(s), and shall include the identity of the preparer(s) and any  
20 reviewer(s).

21 “(c) Audit documentation shall include both the report date and the date of issuance of the  
22 report.”

### 23 COST RECOVERY

24 17. Section 5107(a) of the Code states:

25 “The executive officer of the board may request the administrative law judge, as part of the  
26 proposed decision in a disciplinary proceeding, to direct any holder of a permit or certificate  
27 found to have committed a violation or violations of this chapter to pay to the board all reasonable  
28

costs of investigation and prosecution of the case, including, but not limited to, attorneys' fees.  
The board shall not recover costs incurred at the administrative hearing."

#### **APPLICABLE PROFESSIONAL STANDARDS**

18. Standards of practice pertinent to this Accusation and the engagement in issue include, without limitation:

A. Generally Accepted Auditing Standards ("GAAS") issued by the American Institute of Certified Public Accountants (AICPA). The ten GAAS (AU §150), which are interrelated, are discussed in the Statements on Auditing Standards ("SAS"). The SAS are codified, by "AU" number, in the AICPA's *Codification of Statements on Auditing Standards*. Among the SAS relevant herein, in addition to AU §150 which sets forth the Generally Accepted Auditing Standards and introduces the concepts of "materiality" and "audit risk," are: AU §110 (Responsibilities and Functions of the Independent Auditor); AU §220 (Independence); AU §230 (Due Professional Care in the Performance of Work); AU §311 (Planning and Supervision); AU §312 (Planning the Audit); AU §316 (Consideration of Fraud in a Financial Statement Audit); AU §319 (Consideration of Internal Control in a Financial Statement Audit); AU §326 (Evidential Matter); AU §329 (Analytical Procedures); AU §330 (the Confirmation Process); AU §337 (Inquiry of a Client's Lawyer); AU §339 (Audit Documentation); AU §504 (Association with Financial Statements); AU §508 (Auditor's Report); AU §532 (Restricting the Use of an Auditor's Report); AU §543 (Part of Audit Performed by Other Independent Auditors); and ET § 92.17 (Definition of "Key Position").

B. Generally Accepted Accounting Principles ("GAAP"), derived from various authoritative sources. AU §411 provides guidance to the auditor concerning the "Meaning of 'Present Fairly in Conformity with GAAP.'" This guidance relates to the auditor's duties under both GAAS and GAAP. AU §411.18 sets forth the "GAAP Hierarchy Summary."

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1 **FIRST CAUSE FOR DISCIPLINE**

2 **(Failure to Maintain Independence:**

3 **Business and Professions Code section 5100(g) and Board Rule 65)**

4 19. On or about May 16, 2003 and April 28, 2004, Respondents issued Independent  
5 Accountant's Reports for the audits of Systat Software, Inc. (Systat) for the fiscal years ended  
6 March 31, 2003 and March 31, 2004. The audit engagements were required to be performed in  
7 accordance with GAAS and GAAP, which constitute the standard of practice in the State of  
8 California.<sup>1</sup> Cause for discipline of Respondents' licenses is established under Code section  
9 5100(g) in conjunction with Board Rule 65 in that Respondents failed to be independent in the  
10 performance of their services in accordance with professional standards, in that Respondents'  
11 employee made management decisions in the capacity of acting Chief Financial Officer for  
12 Systat.

13 **SECOND CAUSE FOR DISCIPLINE**

14 **(Gross Negligence: Business and Professions Code section 5100(c))**

15 20. Respondents performed audits for Systat for the fiscal years that ended March 31,  
16 2003 and March 31, 2004, in a grossly negligent manner.

17 21. Respondents' gross negligence included the following extreme departures from  
18 GAAS:

19 **Auditor's Report**

20 A. Respondents' April 28, 2004 report contained language inconsistent with professional  
21 standards in that it included language restricting the use of the report which was not applied or  
22 placed in conformance with professional standards (AU § 532.02; AU § 532.03; AU § 532.04;  
23 AU § 532.19; Code section 5062).

24 B. Respondents' May 16, 2003 and April 28, 2004 reports contained language  
25 inconsistent with professional standards with respect to an opinion based, in part, on the report of

26 \_\_\_\_\_  
27 <sup>1</sup> Board Rule 58 provides that licensees of the Board engaged in the practice of  
28 accountancy shall comply with all applicable professional standards, including, but not limited to,  
generally accepted accounting principles and generally accepted auditing standards.



1 another auditor (AU § 508.12; AU § 508.13).

## 2 **Audit Planning & Documentation**

3 C. Respondents failed to adequately plan and document their audit procedures for the  
4 May 16, 2003 and April 28, 2004 reports, including failing to audit material portions of the  
5 financial statements (AU § 150.02; AU § 339.01; AU § 339.04; AU § 508.22, Board Rule 68.1 ).

6 D. Respondents failed to adequately obtain, document, and evaluate evidential matter to  
7 support the May 16, 2003 and April 28, 2004 reports, including failing to index or correlate the  
8 documentation to the financial statements (AU § 150.01; AU § 150.02; AU § 230.01; AU §  
9 230.02; AU § 326.02; AU § 326.03; AU § 326.11; AU § 326.13; AU § 326.15; AU § 326.16; AU  
10 § 326.17; AU § 326.19; AU § 326.25; AU § 339.01; AU § 339.03; AU § 339.04; Board Rule  
11 68.1).

12 E. Respondents failed to perform planned, specific procedures for analyzing and testing  
13 the accounts receivable for the May 16, 2003 and April 28, 2004 reports (AU § 230.01; AU §  
14 230.02; AU § 312.33; AU § 330.09; AU § 330.31; AU § 508.22; AU § 508.24).

15 F. Respondents failed to adequately plan for determining the nature, timing, and extent  
16 of auditing procedures for the May 16, 2003 and April 28, 2004 reports (AU § 150.01; AU §  
17 150.02; AU § 230.02; AU § 311.03; AU § 339.04; Board Rule 68.1).

18 G. Respondents failed to perform internal control work for the May 16, 2003 and April  
19 28, 2004 reports, including failing to document the controls, failing to test the controls, and  
20 failing to assess control risk (AU § 150.02; AU § 319.02; AU § 319.07; AU § 319.25; AU §  
21 319.61; AU § 339.04; AU § 508.22; AU § Board Rule 68.1).

22 H. Respondents failed to receive legal representation letters for the May 16, 2003 and  
23 April 28, 2004 reports (AU § 230.01; AU § 230.02; AU § 337.13; AU § 508.22; Board Rule  
24 68.1).

25 I. Respondents failed to consider the audit risk at the individual account balance or class  
26 of transactions level for the May 16, 2003 and April 28, 2004 reports and failed to prepare a  
27 materiality determination for the April 28, 2004 report (AU § 312.12; AU § 312.25; AU § 312.26;  
28 AU § 312.27).

1 J. Respondents failed to make inquiries of management and others within the entity  
2 regarding fraud for the May 16, 2003 and April 28, 2004 reports (AU § 110.02; AU § 150.01; AU  
3 § 316.19).

4 K. Respondents failed to perform analytical procedures in the planning and overall  
5 review stages of the May 16, 2003 and April 28, 2004 reports (AU § 329.01; AU § 329.04).

6 L. Respondents failed to perform required procedures when completing the  
7 consolidation of Systat's financial statements with a subsidiary's financial statements audited by  
8 another auditor, including inquiring into the professional reputation of the auditor and obtaining a  
9 representation of independence from the auditor (AU § 543.10; Board Rule 68.1).

10 **THIRD CAUSE FOR DISCIPLINE**

11 **(Repeated Acts of Negligence: Business and Professions Code section 5100(c))**

12 22. Respondents performed audits for Systat for the fiscal years that ended March 31,  
13 2003 and March 31, 2004. Respondents repeatedly made negligent acts in their planning,  
14 performance, and documentation of the Systat audits. Respondents' repeated acts of negligence  
15 are described in paragraph 21, above, which is incorporated by reference herein.

16 **FOURTH CAUSE FOR DISCIPLINE**

17 **(Failure to Issue Report Conforming to Professional Standards: Business and Professions**  
18 **Code sections 5100(g) and 5062)**

19 23. Incorporating by reference the allegations in paragraphs 20 and 21, cause for  
20 discipline of Respondents' licenses is established under Code section 5100(g), in that  
21 Respondents' auditor's reports do not conform to professional standards, as required by Code  
22 section 5062.

23 **FIFTH CAUSE FOR DISCIPLINE**

24 **(Violation of Professional Standards:**

25 **Business and Professions Code section 5100(g) and Board Rule 58)**

26 24. Incorporating by reference the allegations in paragraphs 20 and 21, cause for  
27 discipline of Respondents' licenses is established under Code section 5100(g) in conjunction with  
28

1 Board Rule 58 in that Respondents' failures constitute multiple willful violations of applicable  
2 professional standards.

3 **SIXTH CAUSE FOR DISCIPLINE**

4 **(Inadequate Audit Documentation: Business and Professions Code section 5097,**  
5 **subdivisions (a), (b), and (c) and Board Rules 68.1 and 68.2)**

6 25. Cause for discipline of Respondents' licenses is established under Code section 5097,  
7 subdivisions (a), (b), and (c), in conjunction with Board Rules 68.1 and 68.2 in that Respondents  
8 failed to comply with audit working paper and documentation requirements. The working papers  
9 did not evidence the procedures applied, test performed, or pertinent conclusions reached for  
10 material portions of the May 16, 2003 and April 28, 2004 reports.

11 **SEVENTH CAUSE FOR DISCIPLINE**

12 **(Unregistered Firm Name: Business and Professions Code section 5100(g) and 5060)**

13 26. Cause for discipline of Respondent Ramanan's license is established under Code  
14 section 5100(g) in conjunction with Code section 5060 in that he failed to register the firm name  
15 of Neeka Accountancy Corporation with the Board while engaging in the practice of public  
16 accountancy as defined by Code section 5051. The circumstances are set forth in paragraph 27,  
17 below.

18 27. The firm name of Neeka Accountancy Corporation was not registered with the Board  
19 until on or about March 22, 2004. Respondent Ramanan, however, has been practicing under the  
20 firm name of Neeka Accountancy Corporation since at least on or about May 16, 2003.

21  
22 **PRAYER**

23 WHEREFORE, Complainant requests that a hearing be held on the matters herein alleged,  
24 and that following the hearing, the California Board of Accountancy issue a decision:

25 1. Revoking or suspending or otherwise imposing discipline upon Certified Public  
26 Accountant Number CPA 83591, issued to Subramanian Easwara Ramanan;

27 2. Revoking or suspending or otherwise imposing discipline upon Certified Public  
28 Accountancy Corporation Number COR 5384, issued to Neeka Accountancy Corporation;

1           3.    Ordering Subramanian Easwara Ramanan and Neeka Accountancy Corporation to  
2 pay the California Board of Accountancy the reasonable costs of the investigation and  
3 enforcement of this case, pursuant to Business and Professions Code section 5107; and

4           4.    Taking such other and further action as deemed necessary and proper.  
5  
6

7 DATED: 6.29.10



PATTI BOWERS  
Executive Officer  
California Board of Accountancy  
Department of Consumer Affairs  
State of California  
*Complainant*

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